

**MINUTES OF THE
EXECUTIVE APPROPRIATIONS COMMITTEE**
Tuesday, May 20, 2014 - 1:00 p.m. - Room 210 Senate Building

Members Present:

Sen. Lyle W. Hillyard, Co-Chair
Rep. Melvin R. Brown, Co-Chair
Sen. Jerry W. Stevenson, Vice Chair
Rep. Brad R. Wilson, Vice Chair
Sen. Gene Davis
Sen. Patricia W. Jones
Sen. Peter C. Knudson
Sen. Karen Mayne
President Wayne L. Niederhauser
Sen. Ralph Okerlund
Sen. Luz Robles
Rep. Joel K. Briscoe
Rep. Rebecca Chavez-Houck

Rep. Tim M. Cosgrove
Rep. Brad L. Dee
Rep. Don L. Ipson
Speaker Rebecca D. Lockhart
Rep. Jennifer M. Seelig

Members Excused:

Sen. J. Stuart Adams
Rep. Gregory H. Hughes

Staff Present:

Mr. Jonathan Ball, Legislative Fiscal Analyst
Mr. Steven Allred, Deputy Director
Ms. Greta Rodebush, Legislative Secretary

Note: A copy of related materials and an audio recording of the meeting can be found at www.le.utah.gov.

1. Call to Order/Approval of Minutes

Co-Chair Hillyard called the meeting to order at 1:10 p.m.

MOTION: Rep. Brown moved to approve the minutes of January 28, February 18, and March 12, 2014. The motion passed unanimously with President Niederhauser, Sen. Davis, Sen. Mayne, and Rep. Seelig absent for the vote.

2. Budget of the State of Utah (Report on 2014 G.S. Budget Actions)

Mr. Ball called attention to this year's appropriation report, "Budget of the State of Utah and Related Appropriations." The report summarizes the budgetary actions of the Utah State Legislature during the 2014 General Session. Staff provided each committee member with a spiral bound copy of the report.

Co-Chair Hillyard gave a brief overview of the report via a slide show, "Budget of the State of Utah FY 2014 - FY 2015," dated May 20, 2014. He indicated that upon adoption, electronic copies of the report would be emailed to all legislators.

Co-Chair Hillyard discussed the total state budget from all revenue sources for FY 2015, where the state's funding come from, the use of General Fund and Education Fund (GF/EF) appropriations, how the Legislature spent new GF/EF discretionary money, increases to salaries and benefits for state employees, and the return to best practices.

Rep. Briscoe asked for a clarification on the sales tax sources of revenue. Mr. Ball explained that 3 percent of the total state budget comes from the Transportation Fund or motor fuels tax, 4 percent comes from the earmarked sales taxes in the TIF of 2005, and 17 percent comes from the sales tax backed General Fund.

MOTION: Rep. Brown moved to adopt the Fiscal Analyst's Budget of the State of Utah and Related Appropriations report under UCA 36-12-13 and direct staff to distribute the report to all legislators. The motion passed unanimously with Sen. Davis and Sen. Mayne absent for the vote.

Co-Chair Hillyard expressed his appreciation to Mr. Ball and his staff for the dedication and hard work they exhibited in putting this report together.

3. Revenue Estimates

Rep. Brad Wilson explained that in the 2014 General Session, the Legislature passed H.B. 311 - Budgeting Amendments, and HJR 11 - Joint Rules Resolution on Budget Process Amendments requiring staff to look at 15-year revenue trends by tax type to determine if above-trend revenue growth should be treated as one-time revenue and used for one-time expenditures or paying down debt.

Mr. Ball explained that the discussion on implementing these two pieces of legislation would be broken up over a number of meetings.

Mr. Ball referred to the research memo, "Above-Trend Revenue Growth and Rainy Day Fund Deposit Rules," prepared by The PEW Charitable Trusts. He explained that the LFA had requested that Pew review practices used in other states to estimate above-trend growth. PEW examined the state policies of Virginia, Idaho, Tennessee, and Massachusetts governing rainy day funds and mechanisms that connect rainy day fund deposits to revenue trends. PEW then applied each approach to Utah's tax revenue data from the Census Bureau and presented a scenario of how Utah's two major fund balances would have grown under each scenario.

Mr. Ball briefly reviewed each state's approach to connecting rainy day fund deposits to revenue trends that included a six-year rolling average, allocating one percent of revenue to the rainy day fund, allocating 10 percent of annual growth to the rainy day fund, and volatile tax types. He explained that Dr. Andrea Wilko and Dr. Thomas Young would be putting those approaches into Utah's context next month.

Dr. Andrea Wilko, Chief Economist, LFA, presented the "May Revenue Estimates in Thousands, FY 2014 - FY 2015." She explained that the May revenue forecast reflects February's forecast adjusted for changes the Legislature made during the General Session. Once adopted, these revenue estimates become the baseline for calculating deposits to the Rainy Day Fund.

MOTION: Rep. Brown moved to adopt revenue estimates as shown on the handout entitled, "May Revenue Estimates in Thousands, FY 2014 - FY 2015" and dated today, May 20, 2014. The motion passed unanimously with Sen. Davis and Sen. Mayne absent for the vote.

4. Follow-up on In-Depth Review of Off-Budget Funds and Operations

Rep. Brown explained that during the last interim, the Legislature asked the LFA to do an in-depth review of off-budget funds and operations and make some recommendations for closing funds and increasing oversight of the remaining ones. In the "Review of Off-Budget Funds and Operations" dated November 19, 2013, the Analyst suggested more than a dozen changes. Rep. Brown pointed out that

during the last General Session, the EAC co-chairs sponsored nine bills to close various unnecessary funds and accounts.

Mr. Russell Frandsen, Fiscal Analyst, LFA, gave an update on status of the Fiscal Analyst's off-budget fund recommendations. He referenced a two-page document, "Status of Recommendations From the In-depth Budget Review," that lists 19 recommendation categories. Mr. Frandsen reported that five recommendations had been fully implemented and highlighted the remaining 14 that were still in process.

Upon conclusion of his remarks, a discussion ensued on the status of recommendation 23 - Modify Requirements for the Governor's budget in UCA 51-5 and 63J-1. Speaker Lockhart understood that H.B. 357 - Budgetary Amendments, 2014 General Session, went into effect without the Governor's signature. She asked if the GOMB was going to comply with the law by submitting certain budget information used in preparing the Governor's budget recommendations to the LFA by November 15 of each year.

Ms. Juliette Tennert, Deputy Director, GOMB, stated that some of the concern over the original bill had to do with the timing of when information would be available to allow the Governor an appropriate amount of time to review that information. She stated that the GOMB would comply with the law.

Speaker Lockhart also inquired about intent language that directs the use of \$1 million to change the upper pay scale for trooper salaries. Ms. Tennert stated that legal counsel was currently looking at the interaction between the intent language and other portions of statute. She did however, confirm that the pay increases would go into effect on July 1, 2014. Speaker Lockhart said that she had met with multiple people leading up to the session to clarify how this could be done and DHRM indicated that the change could be done with intent language.

Mr. John Matthews, Director of Compensation Benefits, DHRM, stated that he was aware of those discussions and that there were some additional follow-up meetings scheduled with the Public Safety Commissioner in regards to this issue. The issue is not that the troopers would get their money, but rather, whether or not the range change is consistent in the lines of H.B. 2 and UCA 67-19-12.3. Mr. Matthews indicated that a meeting to address this issue was scheduled for June 2, 2014.

Speaker Lockhart asked for the Legislature's opinion on the matter. Mr. Ball stated that when directed by the Legislature, DHRM has the legal authority to change trooper ranges. Utah Code on the other hand, defines the internal process DHRM has to follow when making change ranges on their own. Mr. Ball understood that the real issue was that there are some law enforcement officials outside of DPS who are in the same job classifications and those ranges would have to change as well.

5. Indicators of State Fiscal Health - Past Successes, Future Challenges

Rep. Wilson briefly discussed the creation of a fiscal health dashboard that gives a summary view of the state's overall financial health. He explained that the fiscal dashboard is a common tool and practice that is used in many different types of organizations.

As per H.B. 311, the LFA is required to prepare, before each annual general session of the Legislature, a summary showing the current status of the state's debt, long-term liabilities, contingent liabilities,

General Fund borrowing, reserves, fund and nonlapsing balances, and cash funded capital investments, as compared to the past nine fiscal years.

In keeping with this charge, Mr. Ball stated that the main focus of today's meeting would be to identify and highlight some of the indicators that could potentially be included in a fiscal health dashboard. He called attention to the packet of information behind Tab D. He also asked each committee member to fill out a survey (blue sheet), "Fiscal Health Dashboard Elements," and rank measures for inclusion on a future Utah fiscal health dashboard.

Mr. Ball explained that today's presentations were a group effort and that LFA's goal is to create a site where legislators and citizens can quickly and easily check Utah's fiscal health.

Mr. Ball briefly discussed dashboard examples for other states and introduced the dashboard elements that included both resources and commitments.

Sen. Niederhauser commented that one of the best sources of this kind of information is the Kansas Policy Institute.

The following individuals reported on the dashboard resources and commitments:

Mr. John Reidhead, Executive Director, Division of Finance, gave a status report on the Rainy Day and Disaster Recovery funds. Mr. Ball also mentioned that the General Fund cash balance, restricted fund balances, and non-lapsing program balances could also be treated as a resource or reserve.

Mr. Mark Bleazard, Fiscal Manager, LFA, discussed pay-as-you-go infrastructure for buildings and roads as well as deferred building maintenance and road maintenance.

Mr. Richard Ellis, State Treasurer, discussed "Long-Term Debt Obligations of the State" including General Obligation Bond Debt, School Bond Guarantee Program, and Moral Obligation pledges, Recapitalization Revenue Bonds, Charter School Credit Enhancement Program, and miscellaneous non-state debt and contingencies. He responded to committee questions.

Sen. Okerlund inquired about the number of miles of roads that are depreciating each year. Mr. Bleazard stated that there are nearly 2,000 miles of Level 2 roads and the number of roads in need of repair is increasing slightly each year. He offered to provide Sen. Okerlund with the exact number of depreciating road miles. Mr. Ball suggested a depiction showing if roads are getting worse over time might be helpful.

Mr. Dan Anderson, URS, spoke favorably about the status of Utah's unfunded retirement liability and Other Post Retirement Benefits subsequent to the 2008 downturn in the economy.

Co-Chair Hillyard asked if the contribution rate paid on behalf of state employees will remain the same. Mr. Anderson expects that the contribution rate will remain the same but there could be a modification in the calculation of the contribution rate depending on the outcome of an experience study that will be completed in September.

Mr. Ball summarized Program I and Program II Sick Leave liabilities.

Sen. Diedre Henderson explained that S.B. 269 - Annual Leave Program II for State, 2014 General Session, addresses a \$110 million liability that the State has been accruing for annual leave for state employees.

Mr. John Dougall, State Auditor, stated that his office has been working on some different scenarios on how to approach the \$110 million unfunded annual leave liability.

Dr. Matt Lund and Mr. Nate Talley, Economists, GOMB, indicated that the annual leave liability has been flat for the last five years, and compared to some of the other outstanding liabilities, this liability has relatively little or no risk associated with it. They also pointed out that the \$110 million includes other costs that would need to be incurred if the State pre-funded all of the annual leave. They felt that the current pay-as-you go system is working.

Dr. Andrea Wilko presented two ways in which economic incentives could be presented on the fiscal health dashboard to show contingent liabilities from either an aggregate or a cumulative view. She noted that if you include tax credits, this may require some additional reporting.

Mr. Ball discussed three other options that could be included on the fiscal health dashboard: General Fund borrowing, federal funds dependency, and GF/EF structural balances. He also proposed including structural imbalances created when ongoing needs are funded with one-time resources.

Mr. Ball informed the committee that staff would be picking up the blue survey sheets at the conclusion of the meeting.

Rep. Chavez-Houck asked if there would be a place to evaluate how workforce health influences revenue on the dashboard.

6. Federal/Non-federal Grants

Mr. Evan Curtis, Governor's Office of Management and Budget (GOMB), presented the Federal/Non-Federal Grants Report dated May 20, 2014. Under federal grants, there were ten new grants, six new reapplications/continuations of existing grants, and one revision of an existing grant requiring legislative action. The Governor's Office approved thirteen new grants, one reapplication/continuation of existing grants, and no revisions of existing grants or supplementals.

Under non-federal grants, there were two new grants, one new reapplication/continuation of an existing grant, and no revisions of existing grants requiring legislative action. There were no new grants, no reapplications/continuations of existing grants, and no revisions of existing grants approved by the Governor's Office.

MOTION: Rep. Brown moved to recommend acceptance of the federal and non-federal grants as outlined on page 1 of the handout entitled, "Federal/Non-Federal Grants Review and Approval" under the heading, "Grants Requiring EAC Review and Recommendation" and dated today, May 20, 2014. The motion passed unanimously.

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7. Other Business

MOTION: Rep. Brown moved to adjourn. The motion passed unanimously.

Co-Chair Hillyard adjourned the meeting at 3:23 p.m.